

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01  
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02  
SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-05 CEA-01  
/105 W

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R 121609Z OCT 77  
FM AMEMBASSY THE HAGUE  
TO SECSTATE WASHDC 1375  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
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E.O. 11652: NA  
TAGS: ECON NL  
SUBJECT: BUDGET AND PLANNING DOCUMENTS HIGHLIGHT NEED FOR  
EFFECTIVE GOVERNMENT ACTION

REF: (A) THE HAGUE 3472, (B) THE HAGUE 4800, (C) THE HAGUE 4956,  
(D) THE HAGUE 5146

1. SUMMARY: BOTH THE SHORT TERM ECONOMIC FORECAST OF THE  
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CENTRAL PLANNING BUREAU (CPB) AND THE 1978 BUDGET, DEVELOPED  
JOINTLY, WERE PRESENTED BY QUEEN JULIANA AT THE SEPTEMBER 20  
OPENING OF PARLIAMENT IN THE ABSENCE OF A DULY CONSTITUTED  
GOVERNMENT. CONSEQUENTLY BOTH DOCUMENTS REFLECTED MINIMAL  
POSITIONS ON A RANGE OF PRESSING AND WORSENING CONTROVERSIAL  
ECONOMIC PROBLEMS THAT REQUIRE STRONG  
(BUT THUS FAR LACKING) GOVERNMENT LEADERSHIP IN

DETERMINING BASIC POLICIES AND IN CARRYING OUT AMELIORATIVE PROGRAMS. PREVIOUS HOPES THAT A COALITION GOVERNMENT WOULD SOON EMERGE HAVE NOT MATERIALIZED AND THE COALITION PARTNERS HAVE AGAIN REACHED AN IMPASSE. YET THE NEED FOR GOVERNMENTAL ACTION IS ACUTE AND THE "CARETAKER" GOVERNMENT IS EXPECTED SOON TO ANNOUNCE A STOPGAP ECONOMIC STIMULUS PACKAGE DESIGNED TO INCREASE INTERNAL DEMAND AND COMBAT RISING UNEMPLOYMENT. END SUMMARY.

2. FINANCE MINISTRY CALLS FOR EARLY ACTION - IN ITS BUDGET MEMORANDUM THE MINISTRY OF FINANCE EXPLAINED THAT BECAUSE THE CABINET HAS BEEN IN A CARETAKER CAPACITY SINCE BEFORE THE MAY ELECTIONS THE 1978 BUDGET LACKED NEW POLICY PROPOSALS AND AN ASSESSMENT OF PRIORITIES. IT INDICATED THAT, BECAUSE OF THE POOR, UNBALANCED OUTLOOK FOR 1978, STEPS HAD BEEN TAKEN TO HOLD DOWN NEW GOVERNMENT INCOME TO ABOUT 800 MILLION BUILDERS (2.44 GUILDERS EQUAL \$1.00) RATHER THAN THE 2 BILLION GUILDER INCREASE NEEDED TO COVER RISING EXPENDITURES. IT POINTED OUT THAT THE CPB'S MOST RECENTLY RELEASED SHORT TERM PROJECTIONS INDICATE A FURTHER DETERIORATION IN THE EMPLOYMENT SITUATION AND A DROP IN THE GROWTH OF REAL GNP. IT ADDED THAT THE FINANCE MINISTRY BELIEVES THAT THE ESTIMATES FOR 1978 WILL REQUIRE EXTRAORDINARY MEASURES, BUT IT LEFT TO THE NEW CABINET THE NATURE LIMITED OFFICIAL USE

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AND SCOPE OF SUCH MEASURES WHICH WILL DEPEND PARTLY ON CONSULTATIONS WITH MANAGEMENT AND EMPLOYEES ON THE TERMS OF EMPLOYMENT (WAGE RESTRAINT). THE FINANCE MINISTRY'S MEMORANDUM SOMBERLY CONCLUDED THAT THE MEDIUM TERM OUTLOOK MAY REQUIRE AN OVERALL REVIEW OF THE GOVERNMENT'S POLICY IN THE VERY NEAR FUTURE.

3. ECONOMIC BACKGROUND - THE TROUBLESOME ECONOMIC SITUATION, WITH WHICH THE DUTCH POLITICAL LEADERS MUST SOON COME TO GRIPS, INCLUDES THESE KEY ELEMENTS:  
(A) UNEMPLOYMENT - UNEMPLOYMENT IS EXPECTED TO TOTAL 255,000 (6.5 PERCENT OF THE WORK FORCE) IN 1978 COMPARED WITH ABOUT 215,000 IN 1977. THE 1978 PROJECTION ASSUMES NO REAL INCREASE IN WAGES WHICH WOULD MEAN AN INCREASE OF 7.5 PERCENT IN THE TOTAL WAGE BILL COVERING ABOUT A 6.9 PERCENT INFLATION RATE PLUS AN ADDITIONAL 1.5 PERCENT FOR PROMOTIONS AND TRANSFERS.  
(B) PRICES - THE CPB FORECASTS AN INFLATION RATE OF 5.5 TO 6.0 PERCENT IN 1978. THIS DECLINE FROM THE 1977 RATE (6.5 - 7.0 PERCENT) IS PREDICATED ON AGREEMENT BETWEEN MANAGEMENT AND LABOR TO LIMIT THE INCREASE IN WAGES TO 7.5 PERCENT, AS WELL AS ON AN ESTIMATED INCREASE

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/105 W

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R 121609Z OCT 77  
FM AMEMBASSY THE HAGUE  
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IN IMPORT PRICES OF 5 PERCENT, AGAINST A CONSTANT  
EXCHANGE RATE FOR THE GUILDER.

(C) INDUSTRIAL PRODUCTION - EARLIER PROJECTIONS OF  
3.5 TO 4.0 PERCENT GROWTH IN INDUSTRIAL PRODUCTION FOR  
1977 HAVE NOW BEEN REDUCED TO 3 PERCENT; THIS ASSUMES  
A 10 PERCENT INCREASE IN BUSINESS INVESTMENT DURING  
1977, COMPARED WITH MINUS 3 PERCENT IN 1976. THE  
LOWER ESTIMATE REFLECTS A DECLINE IN INTERNAL DEMAND,  
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FLAT EXPORTS AND CONTINUING DEPRESSED CONDITIONS IN SUCH KEY INDUSTRIES AS TEXTILES, SHIPBUILDING, AND IRON AND STEEL. FOR 1978 THE GROWTH IN INDUSTRIAL PRODUCTION IS ALSO PROJECTED AT 3 PERCENT, WITH A 3 PERCENT INCREASE IN BUSINESS INVESTMENT.

(D) BALANCE OF PAYMENTS - THE CPB'S BUDGET PROJECTIONS ESTIMATED A SURPLUS ON CURRENT ACCOUNT OF 3.5 BILLION GULDERS IN 1977 AND 6.0 BILLION GULDERS DURING 1978 ON THE ASSUMPTIONS THAT THE VOLUME OF WORLD TRADE WILL INCREASE BY 6 PERCENT; THE PARITY OF THE GUILDER WILL REMAIN UNCHANGED AFTER HAVING APPRECIATED 6 PERCENT THUS FAR IN 1977; IMPORT PRICES WILL RISE BY 5 PERCENT; AND PRICES OF THE NETHERLANDS' COMPETITORS IN FOREIGN MARKETS WILL INCREASE BY 6 PERCENT. HOWEVER, JUST ONE WEEK AFTER PRESENTATION OF THE BUDGET AND THE CPB FORECAST, THE FINANCE MINISTRY SURPRISINGLY REVEALED THAT A STEADILY WORSENING FOREIGN TRADE DEFICIT HAD RESULTED IN A CURRENT ACCOUNT DEFICIT ON A TRANSACTION BASIS TOTALING 645 MILLION GULDERS IN THE SECOND QUARTER OF 1977. THIS CANCELLED OUT THE FIRST QUARTER'S SURPLUS, LEFT A CURRENT ACCOUNT DEFICIT OF 79 MILLION GULDERS FOR THE FIRST HALF OF 1977 (COMPARED WITH A 3 BILLION GUILDER SURPLUS IN THE FIRST HALF OF 1976) AND BROUGHT INTO SERIOUS QUESTION THE CPB'S OPTIMISTIC PROJECTIONS OF CURRENT ACCOUNT SURPLUSES IN 1977 AND 1978. WITH A STRONG GUILDER, HIGH UNIT LABOR COSTS, AND A FLATTENING OUT OF NATURAL GAS DISCOVERIES AND PRODUCTION, DUTCH EXPORTS, WHICH ACCOUNT FOR ABOUT 40 PERCENT OF GNP, HAVE FAILED TO HOLD THEIR OWN AND CURRENT ACCOUNT DEFICITS MAY BECOME A PATTERN. WHILE A PATTERN OF DUTCH DEFICITS WOULD ACCORD WITH THE URGINGS OF USG AND OECD, IT WOULD BE BOUND TO AFFECT THE BODY POLITIC BY INTRODUCING ANOTHER ISSUE WHICH WOULD ADD TO THE BURDEN OF GOVERNING HERE.

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(E) ECONOMIC GROWTH - THE FAVORABLE UPSWING WHICH CHARACTERIZED THE DUTCH ECONOMY EARLIER THIS YEAR HAS NOT CONTINUED. SIGNS OF STAGNATION HAVE BECOME MORE PRONOUNCED, AND THE ESTIMATED REALGROWTH IN GNP FOR 1977 HAS BEEN FURTHER REDUCED TO 3 PERCENT WITH A COMPARABLE 3 PERCENT GROWTH FORECAST FOR 1978. THESE ESTIMATES ARE LARGELY BASED ON THE PROJECTIONS FOR INDUSTRIAL PRODUCTION (DISCUSSED ABOVE) SINCE NO TIMELY FIGURES ON GNP EXIST. HOWEVER, SINCE INDUSTRIAL PRODUCTION FIGURES EXCLUDE THE HEALTHIER SERVICES SECTOR, THEY MAY UNDERSTATE OVERALL GROWTH BY AS MUCH AS 0.5 PERCENT.

4. EUROPEAN AND WORLD PERSPECTIVE - ECONOMIC PROBLEMS

ARE, OF COURSE, NOT UNIQUELY DUTCH AND THE WORSENING DUTCH SITUATION IS TO A CONSIDERABLE EXTENT A REFLECTION OF THE ECONOMIC MALAISE AFFECTING EUROPE AND THE WORLD AT LARGE. THE SUBSTANTIAL AND CLOSE INVOLVEMENT OF THE DUTCH WITH THE ECONOMIES OF EUROPE AND THEIR STRONG DEPENDENCE ON THEIR GERMAN NEIGHBOR LIMIT TO A CONSIDERABLE EXTENT THE RANGE OF THEIR OPTIONS. IN MANY RESPECTS DUTCH ECONOMIC PROSPECTS, VIEWED IN THE PERSPECTIVE OF OECD ASSESSMENTS, VARY LITTLE FROM THOSE OF THEIR WESTERN EUROPEAN NEIGHBORS IN SUCH AREAS AS ECONOMIC GROWTH, UNEMPLOYMENT, AND INFLATION. CONSEQUENTLY THE SOLUTION OF THEIR PROBLEMS DOES NOT LIE ENTIRELY IN DUTCH HANDS.

5. POLITICAL REMEDIES - DESPITE A GROWING CONSENSUS THAT THE ECONOMIC SITUATION REQUIRES IMMEDIATE ATTENTION, THERE IS LITTLE AGREEMENT ON SPECIFIC SHORT TERM MEASURES WHICH SHOULD BE TAKEN TO STIMULATE THE ECONOMY, LET ALONE HOW TO ACHIEVE NEEDED LONG TERM STRUCTURAL CHANGES. THE PROBLEM FOR THE SOCIALIST ORIENTED DUTCH GOVERNMENT IS HOW TO MAINTAIN AN ECONOMIC ENVIRONEMT WTHAT WILL PERMIT

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R 121609Z OCT 77  
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THEM TO ACHIEVE THEIR SOCIAL AND POLITICAL OBJECTIVES.  
THE CARETAKER GOVERNMENT IS REPORTED TO BE CONSIDERING  
PROPOSALS TO CUT INCOME AND/OR SOCIAL SECURITY TAXES  
TO PROVIDE A ONE TIME 200 TO 300 GUILDER BONUS PAYMENT  
TO EVERY TAXPAYER. SOME TRADE UNIONS HAVE SUGGESTED  
CANCELLING THE PROPOSED INCREASES IN THE VALUE ADDED  
TAX ON GAS, OIL AND COAL, BOOSTING WAGES BEYOND THE  
COST OF LIVING ADJUSTMENT ONLY FOR THOSE WORKERS  
EARNING LESS THAN THE MODAL WORKER (28,500 GUILDERS),  
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TAX REDUCTIONS, AND SHORTER WORKING HOURS TO PUT MORE  
MEN TO WORK. ONE PROMINENT DUTCH BANKER AND FORMER  
FINANCE MINISTER ASSERTED THAT SMALL INDUSTRIALIZED  
COUNTRIES LIKE THE NETHERLANDS AND SWEDEN, WHICH DEPEND  
HEAVILY ON FOREIGN TRADE, ARE OUT OF STEP WITH MAJOR  
INDUSTRIAL NATIONS IN TERMS OF ECONOMIC POLICY AND HAVE  
PUT TOO MUCH EMPHASIS ON MAINTAINING DOMESTIC PURCHASING  
POWER TO THE POINT OF DRIVING UP COSTS, REDUCING EXPORTS,  
INCREASING IMPORTS, AND LOWERING PROFITS. IT NOW APPEARS  
THAT THE CARETAKER GOVERNMENT WILL SOON ANNOUNCE A SHORT  
TERM STIMULUS PACKAGE OF AT LEAST A BILLION GUILDERS.  
THE MANNER AND EXTENT TO WHICH SUCH UNDERLYING STRUCTURAL  
PROBLEMS AS RISING UNIT COSTS, MARGINAL INDUSTRIES, LOW  
PROFITS, LOW DOMESTIC INVESTMENT, CAPITAL OUTFLOW AND  
CHRONIC UNEMPLOYMENT WILL BE ADDRESSED WILL REQUIRE  
THE DELIBERATE AND CAREFUL POLITICAL BALANCING OF  
SOCIAL GOALS VERSUS PROFITS, INVESTMENT, AND JOBS AND  
WILL HAVE TO AWAIT THE INSTALLATION OF A DULY CONSTITUTED  
GOVERNMENT WILLING TO TACKLE SOME RATHER GRIM  
REALITIES AND PERHAPS TO RISK LOSING SOME POPULAR  
SUPPORT.  
MCCLOSKEY

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## Message Attributes

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